

## **Overview of the SeTrans Expansion Funding Proposal**

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### **Background:**

The SeTrans proposal was developed by the SeTrans sponsors, including investor-owned and public utilities. It was reviewed with stakeholders and revised before filing with FERC. In its October 10th SeTrans Order, the FERC approved the proposal in general but ordered the sponsors to provide more specificity. The SeTrans sponsors anticipate that the proposal, after further development and stakeholder discussion, will be filed as part of a SeTrans tariff filing in 2003.

### **Contents of the Proposal:**

1. A categorization of transmission investments into two groups:
  - Base plan investments
  - Participant Funded investments
2. An explanation of how the costs of Base Plan investments will be recovered through the SeTrans tariff
3. A description of the process for implementing Participant Funded projects
4. A proposal for the interim treatment of Participant Funded projects (from Day One of SeTrans operation until implementation of LMP and FTRs in SeTrans)

### **Base Plan vs. Participant Funded Investments:**

1. Base Plan investments are required in order to serve load in the SeTrans footprint reliably. Once approved by the SeTrans ISA, they will be recovered through ISA rates. The major categories of Base Plan investments are:
  - Maintain existing transfer capability
  - Meet new NERC standards, if any
  - Meet load growth from qualified capacity resources
2. The ISA will determine whether the cost of a Base Plan investment should be recovered from all customers within SeTrans, customers within a pricing zone, or some subset of customers within a pricing zone.

3. Participant Funded investments are undertaken voluntarily by market participants for economic reasons. The investment does not go into the calculation of SeTrans transmission rates; it is paid for by market participants. The market participants may include utilities acting on behalf of their native load. Participant Funded projects may be developed by existing Transmission Owners or by other transmission developers (ie merchant developers), depending on the circumstances.
4. Categories of Participant Funded investment include:
  - Investments to integrate a new generator so that it qualifies as a “firm” resource for Base Plan purposes, and investments to increase the qualified capacity of an existing firm resource
    - ◆ an economic choice for a generator; it can choose instead to be an energy-only resource
  - Investments to increase throughput into, across or out of the SeTrans footprint
    - ◆ an economic choice for loads/generators inside or outside of SeTrans
  - Investments to reduce congestion within SeTrans
    - ◆ an economic choice in that these investments need not be undertaken simply to maintain reliability. Investments necessary to serve load growth reliably are Base Plan investments.
5. The Transmission Expansion Funding proposal was developed in parallel with the SeTrans Market Design proposal. The latter does not yet specify what the standards will be for a generator to qualify as a “firm” resource (e.g. Network Resource, Installed Capacity Resource, etc.) Once those standards are developed, the expansion funding proposal will be tied to them -- investments to meet the standards will be participant funded. Once a generator has so qualified, it will be eligible for inclusion in the Base Plan studies to meet load growth. This is analogous to the model currently in use in PJM.
6. The Transmission Expansion Funding section of the SeTrans proposal does not cover direct interconnection costs. Those costs are directly assigned to generators under a different part of the SeTrans proposal.